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**HIGHLAND QUEEN  
SPORTSWEAR  
LIMITED**



*Annual Meeting of Shareholders*

*May 30, 1978*



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# HIGHLAND QUEEN SPORTSWEAR LIMITED

## PRESIDENT'S REPORT

In December 1976 the Company consolidated its operations by moving to larger premises at 30 Apex Road, North York, where, for the first time manufacturing was carried on under one roof. The resulting disruption in the Company's operations, and the costs involved in the move, in training inexperienced labour and in building up an inventory to meet a larger sales volume resulted in a loss for the six month period ended April 30th, 1977 of \$86,400.00 before income taxes recoverable. In the last six months the Company recouped its losses and for the year ended October 31st, 1977 had net earnings of \$53,309.00 or 16.2¢ per share.

Although this result compares unfavourably with the net earnings per share of 34.4¢ in 1976 I feel that the full impact of the improvement in our manufacturing facilities, the most gratifying reception by the retailers of the expanded range of Highland Queen and Jones of New York styles of women's wear and the dramatic re-emergence of the reversible skirt in Canada, the United States and Europe will be felt in the 1978 fiscal period in which hopefully the Company will enjoy its most profitable year.

I want to express my appreciation at this time to all those associated with the Company.

On behalf of the Board of Directors

DAVID WEISER

April 25th, 1978.

**HIGHLAND QUEEN SPORTSWEAR LIMITED**

(Incorporated under the Laws of Ontario)

**AND SUBSIDIARY COMPANIES****Consolidated Balance Sheet as at October 31, 1977****ASSETS**

	1977	1976
<b>CURRENT ASSETS</b>		
Cash.....	\$ 18,643	\$ 9,068
Accounts receivable.....	1,151,734	847,012
Due from shareholders (note 2).....	17,700	24,300
Income taxes recoverable.....	25,724	2,524
Miscellaneous receivables.....	2,254	4,821
Inventories (notes 1 and 3).....	821,038	625,443
Prepaid expenses and sundry assets.....	22,829	18,243
	<u>2,059,922</u>	<u>1,531,411</u>
<b>FIXED ASSETS (notes 1 and 4).....</b>	<u>119,085</u>	<u>41,970</u>
<b>OTHER ASSETS</b>		
Relocation costs (note 1).....	22,190	—
Excess of cost of subsidiary over net book value of assets acquired (note 1)...	101,356	101,356
Sundry investments — at cost.....	6,060	6,060
	<u>129,606</u>	<u>107,416</u>
	<u>\$2,308,613</u>	<u>\$1,680,797</u>

**LIABILITIES**

<b>CURRENT LIABILITIES</b>		
Bank indebtedness (note 5).....	\$ 906,985	\$ 465,352
Accounts payable and accrued liabilities.....	462,902	336,624
Income and other taxes.....	—	1,793
	<u>1,369,887</u>	<u>803,769</u>
Deferred income taxes (note 1).....	<u>10,548</u>	<u>2,159</u>

**SHAREHOLDERS' EQUITY**

Capital stock (note 6).....	100	100
Retained earnings.....	928,078	874,769
	<u>928,178</u>	<u>874,869</u>
	<u>\$2,308,613</u>	<u>\$1,680,797</u>

Approved on behalf of the Board

"DAVID WEISER", Director

"J. WEISER", Director



**HIGHLAND QUEEN SPORTSWEAR LIMITED**

(Incorporated under the Laws of Ontario)

**AND SUBSIDIARY COMPANIES****Consolidated Statement of Earnings and Retained Earnings  
for the year ended October 31, 1977**

	<u>1977</u>	<u>1976</u>
<b>EARNINGS</b>		
Revenue		
Sales.....	\$4,457,965	\$3,429,010
Royalty revenue.....	—	9,733
Interest income.....	—	718
	<u>4,457,965</u>	<u>3,439,461</u>
Cost of sales.....	<u>3,293,448</u>	<u>2,506,495</u>
Earnings before the undernoted expenses.....	<u>1,164,517</u>	<u>932,966</u>
Selling and administrative expenses.....	1,006,320	731,866
Depreciation and amortization of leasehold improvements.....	23,951	28,452
Amortization of relocation costs.....	11,097	—
Interest.....	61,368	38,370
	<u>1,102,736</u>	<u>798,688</u>
Earnings before income taxes.....	61,781	134,278
Income taxes.....	8,472	20,658
Net earnings.....	<u>\$ 53,309</u>	<u>\$ 113,620</u>
Net earnings per share.....	<u>16.2¢</u>	<u>34.4¢</u>
Number of shares outstanding.....	<u>330,000</u>	<u>330,000</u>
<b>RETAINED EARNINGS</b>		
Balance at beginning of year.....	\$ 874,769	\$ 761,149
Net earnings.....	53,309	113,620
Balance at end of year.....	<u>\$ 928,078</u>	<u>\$ 874,769</u>

**HIGHLAND QUEEN SPORTSWEAR LIMITED**

(Incorporated under the Laws of Ontario)

**AND SUBSIDIARY COMPANIES****Consolidated Statement of Changes in Financial Position  
for the year ended October 31, 1977**

	<u>1977</u>	<u>1976</u>
<b>SOURCE OF WORKING CAPITAL</b>		
Operations		
Net earnings.....	\$ 53,309	\$ 113,620
Add: Charges not requiring use of working capital		
– Depreciation and amortization of fixed assets.....	23,951	28,452
– Amortization of relocation costs.....	11,097	—
– Deferred income taxes.....	8,389	(3,991)
	<u>96,746</u>	<u>138,081</u>
Proceeds on disposal of fixed assets.....	—	6,972
	<u>96,746</u>	<u>145,053</u>
<b>USE OF WORKING CAPITAL</b>		
Purchase of fixed assets.....	101,066	11,914
Relocation costs.....	33,287	—
Increase in other assets.....	—	3,100
	<u>134,353</u>	<u>15,014</u>
(DECREASE) INCREASE IN WORKING CAPITAL.....	(37,607)	130,039
WORKING CAPITAL AT BEGINNING OF YEAR.....	727,642	597,603
WORKING CAPITAL AT END OF YEAR.....	<u>\$ 690,035</u>	<u>\$ 727,642</u>

**AUDITORS' REPORT**

To the shareholders of

HIGHLAND QUEEN SPORTSWEAR LIMITED.

We have examined the consolidated balance sheet of Highland Queen Sportswear Limited as at October 31, 1977, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
January 5, 1978

WM. EISENBERG & CO.  
Chartered Accountants



# HIGHLAND QUEEN SPORTSWEAR LIMITED

(Incorporated under the Laws of Ontario)

## AND SUBSIDIARY COMPANIES

### Notes to the Consolidated Financial Statements

October 31, 1977

#### 1. Accounting policies

##### *Principles of consolidation*

The consolidated financial statements include the accounts of all subsidiary companies.

These are:

Rotex Limited – 100 % owned

Jack Winter Sportswear Limited – 100 % owned

All inter-company loans and transactions have been eliminated on consolidation.

##### *Inventories:*

Inventories are valued at the lower of cost and net realizable value.

##### *Fixed assets:*

Fixed assets are valued at cost. Depreciation of equipment and furniture is provided using the diminishing balance method at the annual rate of 20 %. Leasehold improvements are amortized over the term of the lease and renewal option on a straight line basis.

##### *Relocation costs:*

The costs attributable to the company's move to new premises are amortized over three years on the straight line basis at \$8,389 per annum.

##### *Excess of cost of subsidiary over net book value of assets acquired:*

The excess of cost of subsidiary over net book value of assets acquired is carried on the accounts at cost without amortization.

##### *Income taxes:*

Income taxes are based on accounting income rather than on taxable income. Differences primarily relating to depreciation are reflected in different time periods for financial accounting purposes than for tax purposes and give rise to deferred income taxes.

##### *Foreign currencies:*

Foreign currencies have been translated into Canadian funds as follows:

Current assets and liabilities – at the prevailing rates on October 31, 1977.

Revenue and expenses – at the average rates prevailing during the year.

#### 2. Due from shareholders

Loans outstanding by the Company during 1977 to shareholders amounted to approximately \$48,077.

#### 3. Inventories

At October 31 the inventories are as follows:

	1977	1976
Raw materials.....	\$366,082	\$298,490
Work-in-process.....	106,011	83,773
Finished goods.....	348,945	243,180
	<u>\$821,038</u>	<u>\$625,443</u>



#### 4. Fixed assets

At October 31 the major categories of fixed assets are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Equipment and furniture.....	\$210,069	\$131,916	\$ 78,153
Leasehold improvements.....	45,838	4,906	40,932
Total, October 31, 1977.....	<u>\$255,907</u>	<u>\$136,822</u>	<u>\$119,085</u>
Total, October 31, 1976.....	<u>\$154,337</u>	<u>\$112,367</u>	<u>\$ 41,970</u>

#### 5. Bank indebtedness

At October 31 the bank indebtedness consisted of the following:

	1977	1976
Overdraft.....	\$ 36,985	\$ 31,352
General operating loans.....	870,000	434,000
	<u>\$906,985</u>	<u>\$465,352</u>

Book debts and inventories of the company and its subsidiaries have been pledged as security for the general operating loans.

#### 6. Capital stock

(a) The authorized and issued capital stock of the company is summarized as follows:

	Number Authorized	Issued	
		Number	Amount
Class "A" voting, fully participating shares, without par value..	500,000	323,270	\$ 98
Class "B" voting, fully participating shares, without par value..	500,000	6,730	2
Common shares, without par value.....	100	—	—
		<u>330,000</u>	<u>\$100</u>

Class "A" shares may be converted into Class "B" shares and Class "B" shares may be converted into Class "A" shares at any time at the option of the respective holders thereof on a share for share basis.

- (b) 1,000 Class "B" shares were converted into 1,000 Class "A" shares during the year.
- (c) Holders of Class "A" shares are entitled to receive, when declared, dividends paid out of tax-paid undistributed income on hand at the end of 1971. Holders of Class "B" shares are entitled to receive 100/85 of the amount of dividends paid to holders of Class "A" shares out of tax-paid undistributed income on hand at the end of 1971 on a share for share basis.

#### 7. Commitments

##### (a) Lease

The Company is committed under a lease for its new premises for a term of seven years expiring November 30, 1983 at an annual rental of \$60,000 (exclusive of other occupancy costs). The lease contains an option to renew for a further term of three years.

##### (b) Licencing agreement

The Company has entered into a licencing agreement effective November 1, 1976 for a period of two years under which the payment of a minimum licencing fee of \$50,000 is required annually. The agreement contains an option to renew for a further term of three years on the same terms and conditions except as to the right of further renewal.



**8. Executive remuneration**

The aggregate direct remuneration paid by the Company during the year to the five highest paid employees (which include the directors as officers or employees) totalled \$185,448 (1976 – \$210,650).

**9. Contingent liabilities**

An action has been entered against a subsidiary for \$22,600 with regard to an alleged minimum guaranteed royalty payment. Legal counsel is of the opinion that the subsidiary has a valid defence and accordingly, no provision has been made in the financial statements.

**10. Subsequent event**

Subsequent to the year end, the Company's subsidiary, Jack Winter Sportswear Limited, under an amendment of its articles of incorporation changed its name to Sportrite Limited.

